COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC., JAMESTOWN, KENTUCKY 42629 FOR AUTHORITY TO IMPLEMENT AN ADJUSTMENT IN ITS UNIFORM SUBSCRIBER RATES	)	CASE NO. 8153

O R D E R

On February 25, 1981, Duo County Telephone Cooperative Corporation, Inc., ("Applicant") filed an application with this Commission requesting authority to increase its telephone rates and charges by approximately $287,841 annually. However, after considering the annual revenue based on the subscribers at the end of the test period, the increase in revenue would be $299,017 annually or 19.5%.

On March 23, 1981, the Consumer Protection Division of the Attorney General's Office (formerly the Division of Consumer Intervention in the Department of Law) filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on July 9, 1981. All parties were notified and the hearing was conducted as scheduled. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted to the Commission for final determination.

Commentary

Duo County Telephone Cooperative is a customer-owned telephone cooperative established under Chapter 279 of the Kentucky Revised Statutes. Applicant provides telephone service to approximately 6,450 subscribers in South Central Kentucky.

Test Period

The Commission has adopted the 12-month period ending December 31, 1980, as the test period for the purpose of determining the reasonableness of the proposed rates. Pro Forma adjustments have been included where found reasonable and proper for rate-making purposes.

Valuation

Net Investment

The Applicant proposed a net investment rate base as of the end of the test year of $8,837,481. In determining this net investment, Applicant adjusted the depreciation reserve to reflect an additional 12-months' depreciation expense by including the total pro forma depreciation expense.

The Commission is of the opinion that in determining the net investment at the end of the test period, only the depreciation expense adjustment of $45,986 should be added to the test year end depreciation reserve. In making this adjustment the Commission is recognizing in the rate base only the additional depreciation associated with the year end plant in service. To include the entire pro forma depreciation expense in the depreciation reserve would understate Applicant's net investment established at test year end. The Commission has also adjusted the proposed net investment rate base by $22,764 to include the value of prepayments at the end of the test year.

The net investment for rate-making purpose is as follows:

Telephone Plant in Service	$10,982,647
Telephone Plant Under Construction	35,737
Plant Held For Future Use	127,236
Materials and Supplies	74,988
Prepayments	22,764
Subtotal	$11,243,372
Less	
Reserve for Depreciation	1,870,216
Net Investment	$ 9,373,156

The Commission has determined that Applicant's capital structure, at December 31, 1980, is as follows:

Total Equities and Margins	$ 901,428
Long Term Debt	9,145,892
Total Capitalization	$10,047,320

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges.

Revenues and Expenses

Applicant proposed pro forma adjustments to revenues and expenses as reflected on its Exhibit 8. The adjustments were proposed to reflect increased interest costs on long-term debt outstanding at the end of the test year and additional debt to be secured subsequent to the test year end, and depreciation expense on plant in service at the end of the test year. The Commission is of the opinion that these adjustments are proper. They have, therefore, been allowed herein for rate-making purposes.

In addition to the pro forma adjustments proposed by Applicant, the Commission has adjusted operating revenue by $24,333 to reflect the normalization of revenue based on the test year end subscribers, and by $20,033 to include interest during construction in operating revenue for rate-making purposes. Further, as the Commission is of the opinion that concession rates can no longer be justified in view of the ever increasing costs all other customers must pay in order to return the lost revenue to Applicant, the Commission has also adjusted operating revenues by $1,941 to include, for rate-making purposes, the revenue lost by Applicant due to its policy of providing free local service to its employees.

The Commission has also made an adjustment to the test year operating expenses to exclude $664 of advertising expense. The advertising expense disallowed for rate-making purposes has been classified as institutional advertising as defined in 807 KAR 5:016E. The Commission has further adjusted test year expenses to exclude charitable contributions of $1,602. The Commission is of the opinion that this expense has little or no benefit to the consumers and should not be allowed for rate-making purposes.

Based on the aforesaid adjustments, Applicant's statement of operations would appear as follows:

	Actual 12/31/80	Pro Forma Adjustments	Adjusted Test Year
Operating Revenues	$ 1,488,784	$ 46,307	$ 1,535,091
Operating Expenses	1,371,188	45,321	1,416,509
Net Operating Income	$ 117,596	$ 986	$ 118,582
Other Income and Deductions (Net)	47,844	1,602	49,446
Interest on Long Term Debt	186,692	25,622	212,314
Net Income	$ (21,252)	$(23,034)	$ (44,286)

Revenue Requirements

The actual rate of return on Applicant's net investment established herein for the test year was 1.25%. After taking into consideration the pro forma adjustments, Applicant would realize a 1.27% rate of return. The Commission is of the opinion and finds that the revised rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis Applicant should be allowed to increase its annual revenue by approximately $299,017 which is the total amount of revenue requested herein based on test year end customers. This results in a rate of return of 4.46%. This additional revenue will provide net income of approximately $254,731 which should be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

Rate Design

For purposes of normalization, further clarification was requested for the semi-public paystation billings shown on the December 1980 billing analysis. Test year revenue for semi-public paystations in the Fairplay and Burkesville exchanges has been normalized to reflect that three of the six stations were billed at the regular rate for 12 months and the remaining three were billed at the regular rate for six months and the vacation rate for six months.

Testimony at the hearing and subsequent information provided to the Commission show that negotiations between the Applicant and Lake Cumberland State Park have resulted in a new contract for PABX service with a monthly rate of $355.30, proposed to be effective September 1, 1981. The Commission is of the opinion that this rate is reasonable and should be approved.

The Applicant proposed no increase in the present paystation coin rate of 10 cents per call; however, the Commission has found in recent telephone cases that the charge for this service has remained unchanged for 25 years and that general ratepayers have been subsidizing the use of coin telephone service. It is the opinion of the Commission that an increase in coin telephone charges is an appropriate means of allocating a portion of the costs of the service to those for whom it is incurred and that the coin telephone rate should be increased to 25 cents per call.

The Applicant proposed to institute a service removal order charge applicable to all customers requesting removal or discontinuance of service. Commission regulations (807 KAR 5:006E, Section 12) make specific allowance for a charge for disconnection only where such disconnection is the result of nonpayment of bills, in which instance it may be included in the cost of reconnection. The Commission is of the opinion that good cause has not been shown to justify deviation from the regulations and Commission policy; therefore, this charge should be denied.

Summary

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges set out in Appendix A will produce gross annual operating revenues of approximately $1,834,108 including concession rates of $1,941 and interest during construction of $20,033 and are the fair, just and reasonable rates to be charged in that they will allow the Applicant to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.

(2) The rates and charges proposed by the Applicant, insofar as they differ from those in Appendix A, should be denied.

IT IS THEREFORE ORDERED that the proposed rates and charges as set forth in Duo County Telephone Cooperative Corporation's application, insofar as they differ from those in Appendix A, be and the same are hereby denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A attached hereto are hereby approved for telephone service rendered by Duo County Telephone Cooperative Corporation on and after the date of this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Applicant shall file its tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 28th day of September 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO. 8153 DATED SEPTEMBER 28, 1981

The following rates are hereby prescribed for all customers in the Fairplay, Burkesville, Jamestown and Russell Springs Exchanges served by Duo Telephone Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Fairplay and Burkesville Exchanges

Class of Service	Monthly Rate
Business Individual Line**	$12.50
Business Individual Line-Vacation	6.25
Business 4-Party Line *	10.50
Residence Individual Line**	9.00
Residence Individual Line-Vacation	4.50
Residence 4-Party Line	8.00
Residence 4-Party Line-Vacation	4.00
Paystation-Semi- Public	20.00
Paystation-Semi-Vacation	10.00
Key/PABX Trunk	18.75
Unlisted Numbers	.25

*Vacation rate for Business 4-Party Line is no longer available.

**Zone charges, where applicable, will be in addition to the rates shown for Business Individual Line (B-1) and Residence Individual Line (R-1) services.

Jamestown and Russell Springs Exchanges

Class of Service	Monthly Rate
Business Individual Line	$22.00
Business Individual Line-Vacation	11.00
Residence Individual Line	14.00
Residence Individual Line-Vacation	7.00
Residence Individual Line-Employee	7.00
Paystation-Semi - Public	25.00
Paystation-Semi-Vacation	12.50
Key/PABX Trunk	33.00
Unlisted Numbers	.25

Business and Residential all Exchanges		Non-Recurring Charges
Number Change Order		$ 10.00
Jack Installation Order		20.00
Pay Stations	$ .25 per call	

Special Contract	Monthly Rate
PABX #1	$355.30